



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
BREATHITT COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES AND
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES**

May 15, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

BREATHITT COUNTY JOHN L. TURNER, SHERIFF SHERIFF'S SETTLEMENT - 1999 TAXES AND SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES

Our audit of the Breathitt County 1999 Taxes and 1999 Unmined Coal Taxes resulted in an unqualified report. The report reflected that an error in printing the 1999 tax bills resulted in the taxpayers being overcharged \$21,882 for 1999 taxes and \$14,344 for 1999 franchise taxes. Management's response indicated that the County Clerk and the School Board had agreed to refund taxpayers.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 1999 TAXES	3
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES	5
NOTES TO THE FINANCIAL STATEMENTS.....	6
COMMENT AND RECOMMENDATION	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	15



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert E. Cornett, Breathitt County Judge/Executive
Honorable John L. Turner, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the Breathitt County Sheriff's Settlement - 1999 Taxes and the Sheriff's Settlement - 1999 Unmined Coal Taxes as of May 15, 2000. These tax settlements are the responsibility of the Breathitt County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Breathitt County Sheriff's taxes charged, credited, and paid as of May 15, 2000, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2000, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert E. Cornett, Breathitt County Judge/Executive
Honorable John L. Turner, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- Overpayment of Tangible Personal Property Taxes Should Be Refunded To Taxpayers

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 27, 2000

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

May 15, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 211,209	\$ 300,139	\$ 694,212	274,201
Tangible Personal Property	37,698	54,369	127,636	117,191
Intangible Personal Property				21,063
Fire Protection	4,834			
Franchise Corporation	41,564	59,482	133,299	
Prior Year Franchise	13,045	15,707	44,095	
Oil And Gas	1,848	2,626	6,807	2,399
Increased Through Erroneous Assessments	86	122	317	112
Additional And/Or Supplemental	231	328	449	300
Penalties	2,408	3,371	7,795	3,074
Adjusted to Sheriff's Receipt	79	9	1	1
Gross Chargeable to Sheriff	<u>\$ 313,002</u>	<u>\$ 436,153</u>	<u>\$ 1,014,611</u>	<u>\$ 418,341</u>
<u>Credits</u>				
Discounts	\$ 3,284	\$ 4,580	\$ 10,849	\$ 5,701
Exonerations	9,192	12,964	31,741	11,923
Delinquents:				
Real Estate	15,133	21,179	49,649	19,349
Tangible Personal Property	145	209	533	511
Intangible Personal Property				4
Total Credits	<u>\$ 27,754</u>	<u>\$ 38,932</u>	<u>\$ 92,772</u>	<u>\$ 37,488</u>
Net Tax Yield	285,248	\$ 397,221	\$ 921,839	\$ 380,853
Less: Commissions *	<u>12,411</u>	<u>16,882</u>	<u>36,874</u>	<u>16,474</u>
Net Taxes Due	\$ 272,837	\$ 380,339	\$ 884,965	\$ 364,379
Taxes Paid	272,622	380,035	919,125	364,092
Refunds (Current and Prior Year)	<u>203</u>	<u>284</u>	<u>649</u>	<u>269</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 12</u>	<u>\$ 20</u>	<u>\$ (34,809)</u>	<u>\$ 18</u>

* and ** See Page 4

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
May 15, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,053,322
4% on	\$	921,839

** Special Taxing Districts:

Library District	\$	9
Health District		4
Extension District		4
Soil District		3
		<hr/>

Due Districts	\$	<u>20</u>
---------------	----	-----------

The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES

May 15, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 37,681	\$ 53,291	\$ 139,086	\$ 49,894
Penalties	<u>1</u>	<u>1</u>	<u>3</u>	<u>1</u>
Gross Chargeable to Sheriff	<u>\$ 37,682</u>	<u>\$ 53,292</u>	<u>\$ 139,089</u>	<u>\$ 49,895</u>
<u>Credits</u>				
Discounts	\$ 242	\$ 343	\$ 890	\$ 314
Delinquents	<u>14</u>	<u>21</u>	<u>54</u>	<u>19</u>
Total Credits	<u>\$ 256</u>	<u>\$ 364</u>	<u>\$ 944</u>	<u>\$ 333</u>
Net Tax Yield	\$ 37,426	\$ 52,928	\$ 138,145	\$ 49,562
Less: Commissions *	<u>1,591</u>	<u>2,249</u>	<u>5,526</u>	<u>2,106</u>
Net Taxes Due	\$ 35,835	\$ 50,679	\$ 132,619	\$ 47,456
Taxes Paid	<u>35,835</u>	<u>50,679</u>	<u>132,619</u>	<u>47,456</u>
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$	139,916
4% on	\$	138,145

The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS

May 15, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 15, 2000, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

BREATHITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
May 15, 2000
(Continued)

Note 4. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 1999 through May 15, 2000.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 22, 1999 through May 15, 2000.

Note 5. Interest Income

The Breathitt County Sheriff earned \$1,998 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by KRS 134.140(b). The remainder was used to operate the Sheriff's office.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENT AND RECOMMENDATION

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
COMMENT AND RECOMMENDATION

October 27, 2000

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Overpayment of Tangible Personal Property Taxes Should Be Refunded To Taxpayers

The 1999 Tangible Personal Property Tax bills were printed in error. The bills reflected a school rate of 49.2 per \$1,000 assessment when it should have been 42.0 per \$1,000 assessment. This resulted in the taxpayers being overcharged for the difference of \$21,882 for 1999 taxes and \$14,344 for 1999 franchise taxes. We recommend steps be taken to ensure affected taxpayers are refunded. We also recommend more care be taken to ensure that bills are accurate in the future.

Sheriff's Response:

The County Clerk and the School Board have agreed to take care of these refunds.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert E. Cornett, Breathitt County Judge/Executive
Honorable John L. Turner, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Breathitt County Sheriff's Settlement - 1999 Taxes and Sheriff's Settlement - 1999 Unmined Coal Taxes as of May 15, 2000, and have issued our report thereon dated October 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Breathitt County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comment and recommendation.

- Overpayment of Tangible Personal Property Taxes Should Be Refunded To Taxpayers

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 27, 2000

